

LUTHER COLLEGE

POLICIES AND PROCEDURES

Department:	Office for Financial Services
Subject:	Quasi-Endowed Specific Operating Reserves or Quasi-Endowed Strategic Reserves
Date Issued:	March 26, 2015
Date Revised:	
Approved By:	Investment and Finances and Enrollment Committees

I. Policy

From time to time to support Luther College's continuing efforts to achieve its mission, the College may make an internal decision to designate unrestricted funds from operating surpluses as "Quasi-Endowment Funds." A quasi-endowment fund may or may not be treated in the same manner as a traditional endowed fund. This document describes the policies and procedures that govern Board designated quasi-endowed specific operating reserves and quasi-endowed strategic reserves.

II. Purpose

This policy applies to operating budget surplus that may be designated by the Board of Regents as quasi-endowment. Typically, but not always, the quasi-endowment will be designated for a specific purpose.

Quasi-Endowed funds established prior to June 1, 2008 will be exempt from these guidelines and the spending allowance will be determined by the President in consultation with the cabinet. The funds exempt are Health Care Reserves, Debt Service Reserves, General Operating Reserve* and Athletics' Travel Reserve. These funds currently support the operating budget in an amount different than the normal spending policy set by the Board of Regents.

III. Terms and Definitions

- Endowment – A financial donation made to the College, whereby the funds are maintained in perpetuity and invested along with other gifts to make a larger pool of funds in the hopes of earning a greater return. Fully-funded endowed funds earn a spending allowance as designated by the Board of Regents of Luther College.
- Quasi-Endowment – Endowment invested funds that allow for the expenditure of principal as well as income. Funds are not permanent funds but are considered long-term investments. For the purpose of this policy, quasi-endowed funds are defined as below:
 - Quasi-Endowed Specific Operating Reserves – Endowed fund(s) whose intent is to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, and unanticipated loss in funding or uninsured losses. These funds are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap.
 - Quasi-Endowed Strategic Reserves – Endowed fund(s) whose intent is to provide funds to meet special targets of opportunity or need that furthers the mission of the College or to provide seed funding for a new idea or innovation.
- Spending Allowance – The annual amount of endowment spending as determined by the Board of Regents of the College.

- Investment Pool – Institutional investments that are organized financial arrangements that consolidate funds for the purpose of greater return and lower risk whereby the new funds into the pool purchase shares or units at the current unit price.
- President’s Cabinet – The President’s Cabinet consists of the President and the officers of the College whom the president names to cabinet.

IV. Procedures and Guidelines – for Board-Designated Endowed Funds

- A. At the end of each fiscal year, typically around June 15, the Director of Budgeting will estimate what the year-end surplus will be. This information will be reviewed by the Vice President for Finance and Administration.
- B. The Vice President for Finance and Administration will review the estimated surplus with the President. By July 1 of each fiscal year, the President in consultation with the cabinet will make recommendations for potential uses of the surplus.
- C. The President and the Vice President for Finance and Administration will present the detailed distribution of surplus funds to the Institutional Planning and Board Affairs Committee and the chair of the Finances and Enrollment Committee. This must be done at least one week prior to the start of audit field work to ensure that the required general ledger entries are done on a timely basis to complete the annual audit.
- D. The College will establish the following reserves:
 - Quasi-Endowed Specific Operating Reserves
 - Quasi-Endowed Strategic Reserves
- E. The target minimum reserve is two months of average operating expenses.

V. Procedures and Guidelines – Spending of Board-Designated Funds

- A. Spending of board-designated funds must be approved by the Board of Regents of Luther College.
- B. Board-designated specific operating and strategic funds in the quasi-endowment do not need to follow the annual spending policy allowance as outlined in the Statement of Investment Policy for the Luther College Endowment Fund.
- C. It is the intention of any draw from quasi-endowed specific operating reserves to be replenished within a reasonable period of time.
- D. The Investment and the Finances and Enrollment Committees of Luther College will review the quasi-endowed board-designated funds annually or as warranted by internal or external events or changes. Approved investments will be determined by the Cash Investment Policy and will be governed by the Statement of Investment Policy for the Luther College Endowment Fund.

VI. Reporting and Monitoring

Quasi-endowed funds will be accounted for annually by the Office for Financial Services and audited as part of the College’s annual audit. Appropriate records will be kept and maintained for each fund. The Vice President for Finance and Administration will provide annual reports to the Investment and the Finances and Enrollment Committees. Changes to the policy will be recommended by the Investment and the Finances and Enrollment Committees to the Board of Regents.

Note: *Spending allowance is \$94,678